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AN ACTION PLAN FOR ECONOMIC DEVELOPMENT
THROUGH PRIVATE INVESTMENT
USAID/LAC/PSO

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AN ACTION PLAN FOR ECONOMIC DEVELOPMENT THROUGH PRIVATE INVESTMENT

AID/LAC/PSO

I. INTRODUCTION

The recently completed detailed review of AID/LAC's assistance portfolio directed at promoting and facilitating increased levels of private investment in the economies of the region offered clear evidence that project and program results were not being measured in any systematic way. Therefore the efficiency and effectiveness of the various strategies and approaches pursued throughout the region could not be evaluated in a consistent and precise manner. Nonetheless two very clear conclusions could be drawn from the exhaustive analysis carried out:

- o The absence of, and the need for, a clear focus on results in the design and implementation of projects and programs as well as in the deployment of resources (financial and managerial/organizational).
- o The absence of, and the need for, more direct private sector involvement in the design and implementation of programs and projects aimed at promoting and facilitating private investment in productive enterprises that result in the expansion of employment and exports.

The explicit response from LAC Missions to the presentation of the findings of the portfolio review, while diverse and often contradictory on the specifics, suggests a strong consensus on the desirability of following through on these two conclusions. A majority of the missions had serious difficulties in measuring and evaluating the accomplishments brought about by their "private sector

portfolio", which made them practically incapable of evaluating the efficiency and effectiveness of their strategies. Yet their own perception of the results obtained (mostly estimates) clearly indicated a much higher output to input ratio, in the form of investments, new jobs or additional exports, generated by AID projects and/or ESF funds when the funds were channelled through private mechanisms. The response from the Missions thus reinforced the conclusions of the analysis and offered support to the concept of focusing on the private sector as the means for accomplishing economic development goals.

Unquestionably, the first of these two conclusions falls completely in line with the Bureau's drive to institutionalize a "management by objectives" (MBO) approach to the administration of the Agency's programs in the region. Such an approach requires a determined focus on results; how you target them, how you measure progress, how you deploy resources to improve the likelihood of achieving them.

Several initiatives in progress will gradually bring about the reorientation of the Bureau's operational culture in the direction of a results/objectives focused organization. Undoubtedly this reorientation will significantly contribute to improving the organization's effectiveness. Singularly important to this end is the effort underway to overhaul and recreate an information system suited to the requirements of an MBO approach.

The specific short term actions that we are proposing in this plan are directed at developing the organizational capability required to enhance and manage a more results oriented private sector program (PSP). At the same time we are also proposing mechanisms that, if successfully applied, would allow the establishment of much higher investment objectives for the various components of the programs to be designed, based on the development of an effective collaboration with the private sector of the region. This in turn would generate much more significant economic development benefits (results) in relation to the available AID resources.

promoting or facilitating private investment be extracted from the total portfolio and grouped under a heading more in line with their individual and aggregate objective of "promoting economic development" through private investment. In other words, agriculture and private sector are not separate programs, but rather private investment (small or large scale) is the means of achieving growth in agriculture.

As stated in the Introduction, the activities proposed in this Action Plan have a twofold purpose. The first is to reinforce the reorientation of the management philosophy from what may be characterized as "process centered" to a result or objectives focused approach. This can be accomplished through a series of interactive skills development procedures which include workshops and other forms of training and support activities for re-orienting behavior. The second purpose is directed at creating and strengthening a working partnership with a broadly defined private sector that would lead to the optimization of results as measured by increased levels of investment.

The salient elements of the strategic framework and of the specific activities proposed are described in the following pages.

III. STRATEGIC FRAMEWORK AND ACTION PLAN

The strategy for AID/LAC's private sector program can be summarized as the need to maximize the leveraging of AID resources, in terms of private investment, as the most effective means of achieving the Agency's development goals. The rationale for this strategy can be outlined as follows:

- o AID has been mandated by Congress with ambitious economic development goals for achieving economic growth and improved equity, while satisfying basic human needs.
- o These goals are particularly challenging considering that most LAC economies have seen a deterioration in their standard of living, primarily because of inadequate (or negative) growth and the lack of investment in productive activities.
- o The level of resources approved for AID/LAC is very small in relation to the magnitude of the need for jobs, foreign exchange and social services.
- o In order to have a significant economic development impact, AID must seek to use its resources as a catalyst for mobilizing additional resources many times greater than what is available to AID.
- o The private sector (local and foreign) must be the source of these additional resources, not only because of the poor fiscal condition of most governments, but also because private investment has been shown to be the most efficient generator of jobs and foreign exchange (as well as the government revenue needed for improving social services).

- o In achieving its goals, AID must clearly differentiate between two types of programs: 1) efforts to stimulate economic growth through private investment; and 2) social programs aimed at meeting basic human needs goals.

The action plan outlined below is designed to enhance AID/LAC's capability to design and manage its programs for stimulating economic development through private investment. As noted above, the concept of leveraging should be the guiding principle for this type of program. This requires: a careful definition of measurable objectives and targets; an ability to measure progress and results; and a capability to work in cooperation with the private sector in the design and implementation of projects with the greatest impact on objectives.

As indicated in Table 1, the objectives of the action plan are to enhance the results orientation of the private sector program and to maximize its leverage on private investment. This requires two types of actions: 1) mechanisms for encouraging and facilitating the implementation of an MBO approach; and 2) initiatives aimed at maximizing leverage. Each action is briefly profiled below.

Table 1

AN ACTION PLAN FOR ENHANCING THE RESULTS
ORIENTATION OF AID/LAC'S PRIVATE SECTOR PROGRAM

ACTION PLAN OBJECTIVES

- o Enhance results orientation of AID PSP
- o Maximize leverage of PS program

A. Structuring the Environment for MBO

- 1) Define the requirements of MBO system.
- 2) Review Mission Action Plans and provide feedback.
- 3) Provide training/workshops.
- 4) Develop appropriate MIS.
- 5) Review/productivity performance evaluation/reward system.
- 6) Review constraints to results oriented action.
- 7) Private guidelines for PSO recruitment and deployment.

B. Ensuring Leverage in PS Programs

- 1) Ensure private sector participation in Action Plan preparation and project selection.
- 2) Seek out ways to work with/through the private sector (local & U.S.).
- 3) Study effectiveness (re. objectives) of types of PS projects & disseminate results -
 - SME
 - Policy dialogue
 - Credit
- 4) Provide guidance on PS initiatives.
 - Privatization & restructuring
 - ESOP
 - Capital mobilization
- 5) Coordinate with other donors.

A. STRUCTURE OF THE ENVIRONMENT FOR MANAGEMENT BY OBJECTIVES

A.1 Define The Requirements of an MBO System

The following essential elements of a successful management by objectives (MBO) system must be defined and communicated throughout the LAC Bureau:

- o Realistic and quantifiable objectives.
 - o Monitoring and evaluation system for tracking results.
 - o Management information system (MIS) that generates the data and reports required for monitoring and management control.
 - o Personnel evaluation and reward system that encourages a results orientation.
 - o Results oriented deployment (organization) of resources (staff and financial).
 - o Periodic review and adjustment of objectives.
 - o Top level management commitment to insure follow-through.
- a. Purpose: To ensure that relevant LAC Bureau personnel (including Mission management) operate on the basis of a common understanding of MBO as it applies to AID's private sector program, and to assure that steps are taken to develop all of the elements required for the successful implementation of this management approach.

- b. Objective: To develop a guidance memorandum for management and staff describing each of the key elements of the MBO approach and outlining steps for their implementation. This memo should complement current guidance for the preparation of Action Plans.
- c. Action Office:
- d. Target Date: August 1986.
- e. Resources Required: LAC staff and \$25,000. in contractor assistance.

A.2 Review Mission Action Plans and Private Feedback

Action Plan submissions for FY87 will be reviewed in AID/W for conformance with the newly adopted LAC "Management by Objective" approach. Extensive feedback will be provided to Missions.

- a. Purpose: To assure that the Missions' Actions Plans define project and program objectives in quantifiable/verifiable terms as the basis for designing, directing, and evaluating the results of the private sector program.
- b. Objective: To set in place a means of insuring more meaningful Action Plans and of testing performance of Mission private sector program activities against accepted criteria of achievement/ results toward the stated objectives.
- c. Action Office:
- d. Target Date: End of Action Plan review cycle for FY87.
- e. Resources Required: LAC staff (no direct costs).

A.3 Private Training and Workshops

A private sector-focused MBO training program for LAC officers will be developed and implemented with emphasis on the definition and measurement of objectives/results, assessment of organizational and management implications and the definition of the functions of an effective private sector officer.

- a. Purpose: To increase the capacity of AID personnel in designing, implementing and managing the private sector program on the basis of defined quantifiable objectives.
- b. Objective: To promote more effective program operations in pursuit of private sector program goals.
- c. Action Office: LAC/PRE with M/PM/TD.
- d. Target Date: For program design, July 1, 1986; for program implementation through 1987.
- e. Resources Required: LAC/PRE and M/PM/TD staffs for program design. Training costs to be determined.

A.4 Develop Management Information System

The Bureau will construct a private sector program tracking and management by objectives information system for the LAC region, with particular emphasis on the data base and management reports required to track results.

- a. Purpose: To assure the necessary information is available to identify progress toward private sector program goals and specific objectives as laid out in CDSS and Mission Action Plans.

- b. Objective: To provide management with the ability/possibility of measuring progress toward goals and adjusting/revising programs and projects to improve results.
- c. Action Office: AC/PRE, in conjunction with AA/LAC and IRM.
- d. Target Date: Completion concurrent with the LAC Program Tracking System.
- e. Resources Required: LAC/PRE and IRM staff and an undetermined cost for specialized technical assistance.

A.5 Review/Modify Performance Evaluation and Reward System

The Bureau will design and implement, as an integral part of its MBO system, a Missions' staff performance review system that focuses on the outputs or results (versus inputs) aspects of the private sector support program.

- a. Purpose: To develop a uniform means of measuring staff performance vis a vis program objectives, congruent with the Bureau's MBO approach.
- b. Objective: To encourage the modification of staff behavior in line with the MBO approach towards improved effectiveness in the achievement of AID private sector program goals.
- c. Action Office: The office of the AA/LAC, with technical support from LAC/PRE.
- d. Target Date: To be determined by the AA/LAC.
- e. Resources Required: LAC staff.

A.6 Review Constraints to Results Oriented Action

An assessment will be made of internal rules, regulations and other factors that inhibit AID/LAC private sector programs staff from working effectively with the private sector and from focusing on results rather than on process and inputs.

- a. Purpose: To enhance the effectiveness of PSO staff by eliminating unnecessary paperwork requirements and facilitating more time outside of the office interacting with the private sector.
- b. Objective: To identify, through studies conducted at the Mission level, specific impediments to results oriented action and linkages with the private sector, and to recommend solution to Mission and LAC management.
- c. Action Office: LAC/PRE in conjunction with LAC field missions.
- d. Target Date: Analysis completed by December 30, 1986.
- e. Resources Required: AID staff and contractor assistance to conduct assessments at the Mission level.

A.7 Provide Guidelines for PSO Recruitment and Development

Guidelines will be prepared profiling the characteristics to be sought in private sector office staff and contract personnel, as well as outlining an approach for the training and professional development of these individuals.

- a. Purpose: To help ensure effective staffing of the private sector program.
- b. Objective: To provide Missions and LAC/PRE with clear criteria and guidelines to focus recruitment and development.
- c. Action Office: LAC/PRE.
- d. Target Date: December, 1986.
- e. Resources Required: AID staff.

B. ENSURING LEVERAGE IN PRIVATE SECTOR PROGRAMS

B.1 Involve Private Sector in Preparing Plans and Selecting Projects

Missions will be required to involve the private sector in the preparation of Action Plans and the identification and design of private sector projects.

- a. Purpose: To maximize the leveraging of AID development assistance by seeking out and supporting private initiatives and investment.
- b. Objective: To utilize the Action Plans as an opportunity for involving the private sector in the planning of the Mission's portfolio.
- c. Action Office: LAC/AA.
- d. Target Date: FY1988 Action Plan Cycle.
- e. Resources Required: AID staff.

B.2 Seek Out Ways to Work With and Through the Private Sector

LAC/PRE and LAC/DP will set in place a number of mechanisms aimed at seeking out ways for AID to work with and through the private sector in both Latin America and the U.S. These will include:

- o Preparing a report for the AA/LAC and Missions on the opportunities and prospects for channeling more P.S.P. resources through private for profit and non-profit organizations rather than through public sector intermediaries.

- o Encouraging LAC/PRE staff to establish better linkages with the U.S. private sector by: involving appropriate individuals in TDY's; consulting relevant corporations with regards to major PSP initiatives; and generally "listening" to learn of trends in U.S. business and their implications for the region.
- a. Purpose: To provide the information required to establish meaningful and productive cooperative initiatives with the private sector in LAC and the U.S.
- b. Objective: To insure that many possibilities of working with the private sector are considered and that these are perceived as realistic by the private sector.
- c. Action Office:
- d. Target Date: January 1, 1987.
- e. Resources Required: AID staff.

B.3 Study Effectiveness of PSP Projects

Studies should be undertaken to evaluate the results to date of different types of PSP projects. Some examples include:

- o Small enterprise development - Since studies have shown that small businesses are a major source of new jobs at a low investment cost per job, it has been assumed that AID should focus significant resources on small business. However, the question is whether AID effectively leverages its resources on these projects.

- o Policy dialogue - While it is generally accepted that the policy framework has the greatest impact on investment, it is not clear what types of AID PSP projects have been most effective in stimulating change.
- o Credit - A significant percentage of AID PSP resources are channeled into credit projects and yet there is little data to indicate whether and under what circumstances these projects have a significant impact in relation to objectives.
- a. Purpose: To help Missions focus their resources on projects with the highest possible leverage and impact on AID objectives.
- b. Objective: To put in place a study program aimed at generating and disseminating information for effective PSP portfolio development.
- c. Action Office:
- d. Target Date: Study program in place by September 30, 1986.
- e. Resources Required: AID staff and about \$100,000 per study.

B.4 Provide Guidance on PS Initiatives

Missions will be provided with guidance on how to structure and incorporate new types of initiatives into their PSP portfolios. Examples would include guidelines for:

- o Meeting privatization targets set by the A/AID which recognizes the great diversity of problems or situations throughout the region.

- o Structuring credit, credit facilitation and equity capital projects through private sector vehicles.
 - o Considering the integration of ESOP's into Mission privatization projects.
 - o Including projects aimed at improving the financial and economic performance of traditional product industries.
- a. Purpose: To support and encourage Missions in their efforts incorporate innovative ideas and AID policies in their portfolios.
 - b. Objective: To assure that resources are used to achieve the highest possible impact in terms of investment leveraged, in conformance with AID policies.
 - c. Action Office:
 - d. Target Date: Ongoing.
 - e. Resources Required: LAC/PRE staff with technical assistance from PRE and PPC and consulting assistance through PRE's Financial Markets, Center for Privatization and Private Sector Support Projects.

B.5 Coordinate With Other Donor Agencies

The AA/LAC will convene a meeting of U.S. Representatives to multilateral and other bilateral donor agencies.

This meeting should be followed by in-country work sessions, encouraged and monitored by the AA/LAC, of donor agencies representatives with private sector participation.

- a. Purpose:
1. To review private enterprise development issues as perceived by AID and participating institutions.
 2. To examine private sector support programs of each institution; and
 3. To define approaches to interagency collaboration and cofinancing of private sector development activities.
- b. Objective: To gain both financial and political leverage in support of LAC's private sector program.
- c. Action Office: LAC/PRE with LAC/DP and PPC's Office of Donor Coordination.
- d. Target Date: September, 1986 for first meeting.
- e. Resources Required: LAC/PRE staff and approximately \$400 in presentation materials.

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